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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

November 8, 1993

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Mr. Caton:

Re: *RM-8354 - Revision of the Commission's Part 64 Requirement for the Filing of Cost Allocation Manuals by Certain Local Exchange Carriers*

On behalf of Nevada Bell, please find enclosed an original and six copies of its "Comments" in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,



Enclosures

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

RM-8354

1 In the Petition, USTA states that the four carriers which would be immediately affected by the proposed change to section 64.903(a) are: Puerto Rico Telephone Company, Rochester Telephone Corporation, Cincinnati Bell Telephone Company, and Lincoln Telephone and Telegraph. Petition, p.2.

\$1 billion in operating revenue.² The amendment of the threshold amount of section 64.903(a) is appropriate for medium sized carriers, such as Nevada Bell,³ because CAM filings, updates, and audits are not needed to monitor the nonregulated activities of these carriers.

The primary purpose of sections 64.903 and 64.904 is to guard against cross-subsidization from a carrier's regulated activities to its nonregulated activities. For Nevada Bell as well as the companies cited in the Petition, the Commission can evaluate the risk of cross-subsidization without reviewing a CAM because Nevada Bell has a small amount of nonregulated activities and a correspondingly small percentage of revenues associated with these activities.⁴ In 1992, Nevada Bell expended approximately 3.5% of its total expenses as nonregulated and

² In terms of both access lines and revenues, Nevada Bell is actually smaller than all but one of the four companies cited by USTA. Lincoln Telephone has 243,039 access lines and operating revenues of \$142,898,990; Rochester Telephone has 895,971 access lines and operating revenues of \$567,272,000; Puerto Rico Telephone has 963,932 access lines and operating revenues of \$736,620,383; and Cincinnati Bell has 815,286 access lines and operating revenues of \$510,984,391. PhoneFacts, USTA, 1993. By comparison, Nevada Bell has approximately 248,000 access lines and operating revenues of approximately \$161 million.

³ Nevada Bell provides exchange and access services in the western, central and northern regions of the State of Nevada. This operating territory, which covers approximately 60,000 square miles, consists largely of sparsely populated rural areas. There are only two significant population centers within this region: Carson City (with approximately 43,000 residents) and the Reno-Sparks area (with approximately 196,000 residents). The vast majority of Nevada Bell's access lines (170,000) are located in the Reno-Sparks area.

⁴ See Petition, p.4.

approximately .1% of its total investment as nonregulated.⁵

Nevada Bell has only eight nonregulated products and services and has experienced little change of regulatory significance in those areas. The Commission can adequately oversee these nonregulated expenditures by reviewing ARMIS Report 43-03 and does not need quarterly CAM revisions or annual audits.

The Commission also designed section 64.903(a) to provide information pertaining to a carrier's transactions with its nonregulated affiliates. Nevada Bell has very few affiliate transactions and thus the Commission can review these activities without requiring CAM filings and updates.⁶ If the Commission acts favorably on USTA's petition, the Commission would not forfeit its oversight of transactions with nonregulated affiliates and would continue to receive nonregulated affiliate transaction information on ARMIS Report 43-02.

Past experience reveals that the information contained in CAM quarterly updates is often not essential for the accomplishment of the Commission's regulatory goals. For example, the Commission requires public notice and the opportunity for public comment each time a CAM update is filed. The Commission currently issues a generic public notice of CAM

⁵ Nevada Bell 1992 ARMIS Report 43-03, filed April 1, 1993.

⁶ According to ARMIS Report 43-02 for the year ending December 31, 1992, Submission 1, Table I-2, Nevada Bell engaged in the following transactions with nonregulated affiliates: (1) transactions with Pacific Bell Directory totalling \$6.792 million; and (2) transactions with Pacific Telesis Group totalling \$1.250 million.

updates each quarter for all carriers.⁷ The Commission's consolidation of the public notice process suggests that few unique or troublesome questions have arisen which require scrutiny of CAMs. Furthermore, no party has ever commented on Nevada Bell's CAM updates. Thus, such updates do not appear to serve any significant regulatory function and should therefore be abolished for Nevada Bell and other medium sized carriers.

The change proposed in the Petition will not impact the Commission's ability to review Nevada Bell's nonregulated activities, nor will it relieve Nevada Bell of its responsibility to comply with general rules governing the separation and allocation of costs.⁸ Nevada Bell will still have to comply with section 64.901 which governs cost allocation and the Commission will continue to receive annual access filings and ARMIS filings.⁹

⁷ See Petition, p.7.

⁸ Separation of the Costs of Regulated Telephone Services from the Costs of Nonregulated Activities, Report and Order, 2 FCC Rcd 1298, 1304 (1987), recon. 2 FCC Rcd 6283 (1987) (Joint Cost Reconsideration Order), further recon., 3 FCC Rcd 6701 (1988), affirmed sub nom., Southwestern Bell Corp. v. FCC, 896 F.2d 1378 (D.C. Cir. 1990). Joint Cost Reconsideration Order, 2 FCC Rcd at 6299. See section 64.901 and Petition, p.5.

⁹ Unlike carriers operating in more than one service area, all of Nevada Bell's serving territory is within Nevada and is subject to one state regulatory commission. The Public Service Commission of Nevada provides extensive regulatory oversight of Nevada Bell's overall activities. Thus, this Commission does not need to maintain the same degree of regulation over Nevada Bell that it requires over larger carriers with operations in more than one state. See Petition, p.8.

As discussed above, the proposed amendment to section 64.903(a) would not constitute a significant change in terms of the Commission's ability to guard against cross-subsidization. However, the amendment would amount to a significant change to Nevada Bell in terms of cost savings. On an annual basis, Nevada Bell would save approximately \$118,000 in audit costs and approximately \$12,000 in audit support costs. This is a significant savings for Nevada Bell, a relatively small carrier with approximately \$161 million in operating revenues. Without the proposed amendment to section 64.903(a), CAM compliance and the related audits will continue to be a proportionately greater burden on Nevada Bell than they are on other significantly larger carriers.¹⁰

Additionally, relaxation of the CAM filing and audit requirements would allow Nevada Bell employees to devote themselves to other pending FCC matters, where their input is greatly needed.¹¹ Thus, for Nevada Bell, the changes to section 64.903(a) would provide significant cost savings and would relieve staffing limitations.

¹⁰ See Petition, p.7.

¹¹ Unlike other small affiliates of larger Regional Bell Operating Companies, Nevada Bell generally relies on its own internal FCC compliance staff to meet its FCC requirements. Currently, a staff of five is responsible for all FCC proceedings and one person is responsible for all CAM related matters.

Given the benefits of the proposed changes to Nevada Bell and the other methods available to assure the Commission's continued oversight, the Commission should approve the proposed amendment of section 64.903(a). By making such a change, the Commission will not impact the definition of Tier 1 carriers, nor will the Commission alter the regulatory requirements imposed on Tier 1 carriers. Accordingly, Nevada Bell respectfully requests that the Commission grant USTA's petition for rulemaking and include Nevada Bell in the rulemaking.

Respectfully submitted,

NEVADA BELL

A handwritten signature in cursive script, appearing to read "L. Nelsonya Causby", is written over the printed name.

Margaret E. Garber
L. Nelsonya Causby

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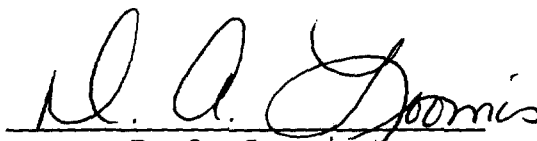
1275 Pennsylvania Avenue, NW
Washington, D.C. 20004

Its Attorneys

Date: November 8, 1993

CERTIFICATE OF SERVICE

I, D. A. Loomis, hereby certify that a copy of the foregoing "Comments of Nevada Bell", in the Matter of Revision of the Commission's Part 64 Requirements for the Filing of Cost Allocation Manuals by Certain Local Exchange Carriers in RM-8354, were served by hand or by first-class United States mail, postage prepaid, upon the party listed below on this 8th day of November, 1993.


D. A. Loomis

Nevada Bell

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Reno, Nevada 89502

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